



Welcome to the U.S. Customs Service's first *Trade Update*. This update will provide informative articles about current developments between Customs and the trade community. Our first issue highlights joint efforts to improve Customs programs for managing risk, the practices we use to redirect resources to areas of greatest non-compliance. Future updates will address ongoing program activities and include news about the many outreach initiatives Customs carries out with the trade community.

For the past several years, U.S. Customs Service and our partners in business and industry have worked together to develop innovative ways to facilitate trade and enhance compliance. This renewed emphasis on cooperation comes at a critical time. Both Customs and the trade face immense pressures from a spiraling volume of imports, complex new trade agreements, and the just-in-time demands of business. We must continue to join forces and devise creative solutions to meet these challenges.

This newsletter is designed to enhance that cooperation. Your feedback and commentary on the issues raised inside are welcome. I hope you'll enjoy U.S. Customs *Trade Update*, and find it useful and informative for your business.

Raymond W. Kelly
Commissioner of Customs

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Focus on Non-Compliance

By Cara O'Neill, Office of Field Operations

Pictured above is a cargo container. No looking inside. No peeking at the entry summary.

Now, a pop quiz.

- 1) What is in that container?
- 2) Are the goods inside fully compliant?
- 3) Any violations of trade laws?
- 4) Is documentation available?

According to the Office of Strategic Trade, each year 28.6 million lines of cargo enter the United States: 23.5 million of these lines have no problems at all; 5.1 million lines are non-compliant; and 2.9 million of these have significant violations.

Is your container one of the 2.9 million with serious violations? We need to know now. There are millions more shipments waiting for an answer.

This is a challenge the U.S. Customs Service faces every minute of every day. How do you identify compliant shipments, in advance, so that you can direct analytical, exam, and enforcement resources to the serious trade violations?

The Customs Focus on Non-Compliance (FONC) program is beginning to answer these questions. With several years of compliance measurement, compliance assessment and account management data at their fingertips, better

predict the likelihood of non-compliance. And port managers are using this information to assign resources.

One year after implementation, the results are extremely encouraging. One port eliminated 940 unnecessary cargo exams and 12,000 entry summary reviews, saving time and money for both the trade and Customs. Then they redirected these resources to shipments with a greater risk of non-compliance. A northern border port decreased exams for five tariff numbers by an average of 54%. This resulted in a 97% decrease in exams for one importer alone. Customs is now taking the lessons learned in the FONC program and using them to build a comprehensive Risk Management system, expanding the FONC concept and savings into every aspect of Customs operations.

Our jobs in today's global trade environment—yours as importers, brokers, carriers, and others and ours as a regulatory agency—are not getting any easier. Volume is skyrocketing and the size of our workforce is staying the same. By capitalizing on the strategic research methods developed in the FONC program, Customs can much more effectively manage its resources and facilitate compliant cargo. Inspectors and import specialists can now

Joint Vision For Compliance Assessments

By Matt Krimski, Office of Strategic Trade

No single Customs activity allows importers and Customs to better assess risk and direct future resources than a Compliance Assessment (CA). For importers, CAs identify sources of ongoing compliance problems. For Customs, CAs provide managers with the information they need to redirect intensive exam and review resources from highly compliant companies to importers identified as high-risk.

However, a CA is resource-intensive for both the importer and Customs and continuous improvement of the process is critical. In the last 18 months, Customs launched three joint improvement efforts with the trade.

A primary importer concern with CAs was what the trade community viewed as “unreasonably high standards.” Importers felt Customs should consider the significance of violations discovered when assessing a company’s compliance.

Customs agreed and worked with trade representatives to develop a set of

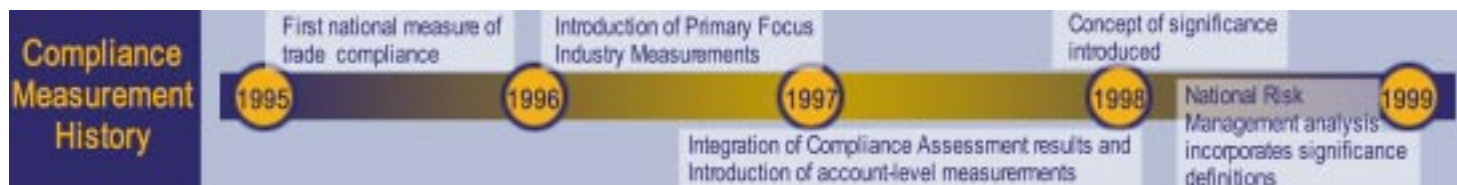
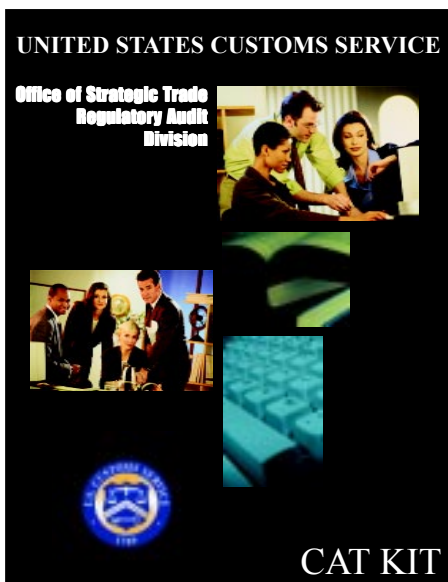


“materiality standards.” These standards consider the gravity of compliance errors and provide for reasonable tolerances. The new standards were tested for one year and are now in place nationwide. A second concern with CAs, for both importers and Customs, was the cycle time. Many assessments took more than 18 months to complete. In 1997, the Office of Regulatory Audit conducted a comprehensive analysis of the CA process and examined new approaches designed to reduce the costs and time involved. Over the course of a year, a new process was designed and tested with eight major importers. Most of these assessments were completed in as little as eight months. The redesigned procedures were implemented for all CAs on July 1, 1999.

A third concern for importers was the need to wait for Customs to assess compliance problems. Many companies wanted to identify ongoing issues on their own, before a CA team knocked on the door.

Working with a team of importers, Customs developed the Importer Compliance Monitoring Program (ICMP). Under this program, importers conduct their own review using the same methodologies employed by Customs. Customs then verifies the results. A test involving 29 companies, with annual imports totaling \$57 billion, is now complete. Customs is analyzing the test to determine if the program should be continued. In addition, significant revisions are being considered to address materiality in the context of compliance assessment.

While the implementation of materiality standards, cycle-time reductions, and the ICMP program have improved the CA process, Customs is not standing still. The Commercial Operations Advisory Committee (COAC), a public advisory group, now provides regular input into Regulatory Audit initiatives. A working group, comprising trade and Customs representatives, meets regularly to improve the efficiency of Regulatory Audit programs.



The sophistication of the Customs Compliance Measurement program has greatly increased since the agency’s first foray into statistical measurements. This timeline outlines the program’s history.

Spotlight On Significance



By: Kevin Fox, Office of Strategic Trade

During the last decade, seemingly divergent trends have significantly impacted the way Customs approaches its work:

- static resources coupled with ever-increasing trade growth; and
- flexibility provided by the Customs Modernization Act tempered by increased accountability demanded by the Government Performance and Results Act.

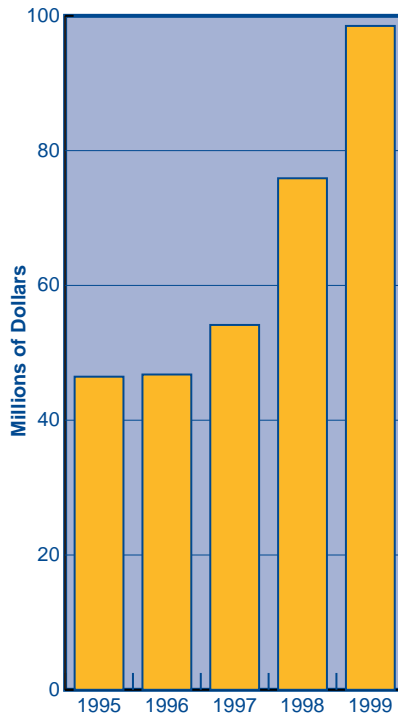
The Customs Risk Management system better prepares the agency to confront these conflicting challenges. One key to the system's success is the Compliance Measurement "significance" definitions used to determine which violations are most important.

For the last four years, Customs included all errors, regardless of importance, when calculating compliance rates. These numbers represented compliance with the "letter of the law." Now, in addition to these numbers, Customs also publishes rates that take value and significance into consideration.

Latest FY 1999 Compliance Rates

Overall Compliance Rate	82%
Overall Compliance Rate for Significant Discrepancies	90%
Primary Focus Industry Compliance Rate	85%
Primary Focus Industry Compliance Rate for Significant Discrepancies	91%

Comparison of Yearly Estimated Domestic Values of IPR Seizures

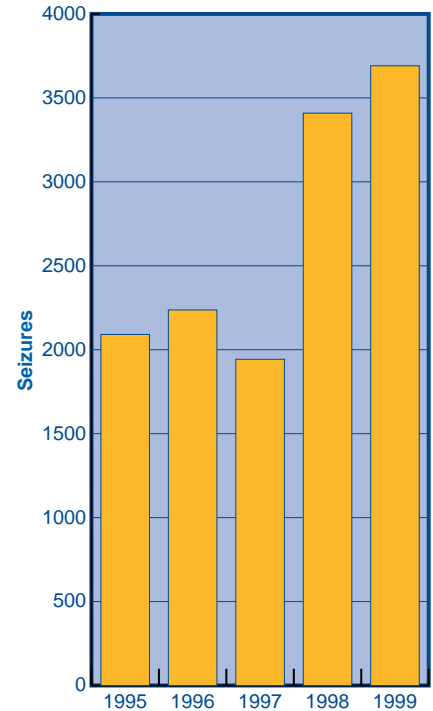


Source: SEACATS & LASTC

Since 1994, there has been a steady increase in the value of Intellectual Property Right (IPR) seizures. The overall values show a \$22 million dollar increase in the value of IPR seizures from 1998 to 1999.

Over the past five years, Fiscal Year 1999 represented the highest estimated domestic value for IPR seizures, with a value exceeding \$98 million dollars.

Comparison of Yearly Seizure Totals



Source: SEACATS & LASTC

The seizure total reflects an 8% increase in the number of seizures from Fiscal Year 1998 to 1999, and an increase of more than 29% in value.

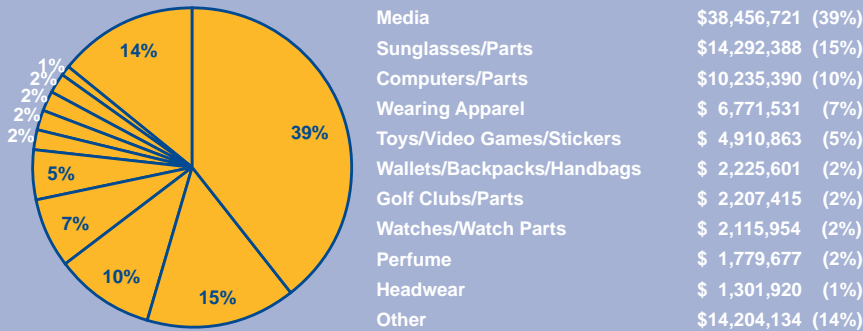
Pictured below is a pair of jeans from a seizure made by members of the Phoenix trade team of counterfeit Levi's imported from Israel. A great deal of effort was expended on hiding the Levi's label beneath another label.



Customs Trade Facts

U.S. Customs FY 1999 Top IPR Seizures By Commodity

Data represents the domestic value in U.S. dollars



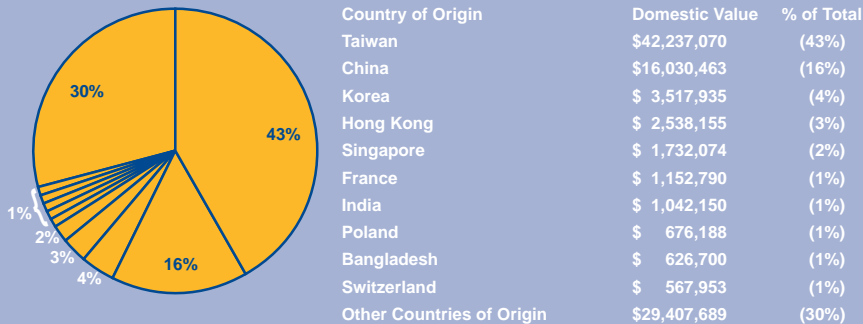
Note: Media includes motion pictures on tape, laser disc and DVD; interactive and computer software on CD-ROM, CD-R, and/or floppy disc; and music on CD or tape.

Source: SEACATS & LASTC

Total FY 99 Domestic Value Seized: **\$98,591,594**
Total Number of Seizures: **3,691**

U.S. Customs FY 1999 Top Trading Partners for IPR Seizures

Data represents the domestic value in U.S. dollars



Source: SEACATS & LASTC

Total FY 99 Domestic Value Seized: **\$98,591,594**
Total Number of Seizures: **3,691**

In Fiscal Year 1999, the U.S. Customs Service seized \$98.5 million worth of imports that violated Intellectual Property Right (IPR) laws. The top three commodities with IPR violations are movies, software and music (39%); sunglasses and parts (15%); and computers and parts (10%). 43% of all imports seized for IPR violations come from Taiwan; 16% come from China.

Source: SEACATS & LASTC

Trade Views

Comments from Leslie Cazas, Corporate Manager of the Customs Administration Group for Nissan North America, regarding the article "Joint Vision for Compliance Assessments" featured on page 2.

"Working together regularly in a candid and no-holds-barred environment has enabled both Customs and the trade to make strides towards achieving its mutual goal of regulatory compliance. However, there is still much to accomplish, as neither the trade nor Customs can afford compliance at any cost. At a time when duty rates are the lowest in U.S. history, it is inconsistent that a responsible importer's costs of compliance should be growing exponentially.

"Customs and the trade must continue their partnership until importers have integrated Customs compliance into their usual business practices and Customs will depend on such accepted practices as sufficient evidence of compliance. The trade is encouraged by Customs interest in establishing the compliance working group, as well as Treasury's acceptance of a 'CAT Subcommittee' for the 1999-2000 COAC term."

Customs Questions?

Do you have questions about importing into the U.S.? These recent trade notices, as well as information on other topics, can be found by visiting the U.S. Customs web site at www.customs.gov.

- ACS Reconciliation Prototype: A Guide to Compliance
- Textile Status Report: Laser Machinery, HTS 8456
- Drilling, Milling, Threading Machines, HTS 8459
- Exporting Used, Self-Propelled Vehicles, Vessels and Aircraft
- Broker Look-Up by Port
- ABI Vendor List
- Asia Pacific Economic Cooperation (APEC)
- Free Trade Area of the Americas (FTAA)

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Reader Response Card

The purpose of this card is to encourage communication between readers of the *Trade Update* and the Office of Field Operations, U.S. Customs Service. Please provide your views, comments, suggestions, requests for publications, or interest in being on our mailing list in the space provided below -or- email us at Customs.trade.bulletin@customs.treas.gov

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Company: _____

Comments: _____

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SUGGESTIONS